

**PUBLIC DISCLOSURE**

January 29, 1999

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**MONSON SAVINGS BANK**

146 MAIN STREET  
MONSON, MA 01057

DIVISION OF BANKS  
100 CAMBRIDGE STREET  
BOSTON, MA 02202

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **MONSON SAVINGS BANK** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated " Satisfactory"**

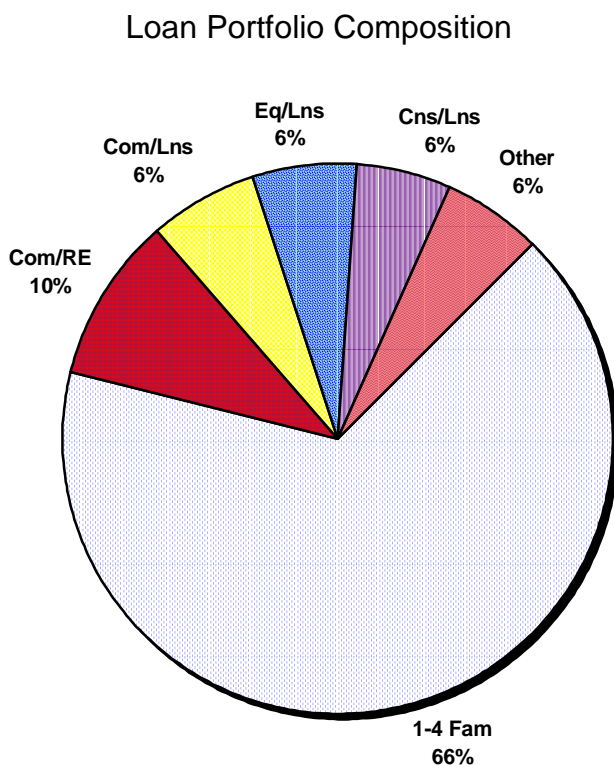
The bank's CRA rating is based on five performance criteria which are evaluated within the bank's performance context. The bank's satisfactory rating is based on; (1) an average net loan to deposit ratio of 76.3%; (2) a majority of loans granted within its assessment area; (3) a more than reasonable level of lending to borrowers of different income levels and to businesses of different sizes; (4) reasonably distributed lending throughout the census tracts comprising the assessment area and finally; (5) regular implementation of fair lending policies and procedures. There were no discriminatory lending practices noted and the bank received no CRA complaints.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Monson Savings Bank is a community based financial institution, which incorporated in 1872 as a mutual savings bank. The main office is located at 146 Main Street, Monson. The bank opened a branch office in Hampden on August 1, 1998. Both offices are full-service offices, which offer drive-up facilities and 24-hour ATM with network access. Monson Savings Bank is a member of the *SUM* network of banks, which do not levy ATM surcharges to non-customers.

As of September 30, 1998, total assets were \$92.1 million of which total loans represented \$59.8 million or 65.0% of total assets. The following chart depicts the composition of the bank's loan portfolio based on the September 30, 1998 FDIC Call Report of Condition.



As depicted above, Monson Savings Bank remains primarily a residential mortgage lender. Residential mortgages (1-4 family) totaled \$39.8 million and comprised the majority (66.5%) of loans. However, the institution has diversified its loan portfolio to include commercial and consumer loans. Commercial mortgages and commercial loans combined totaled \$9.5 million and represented 16.0% of loans outstanding. Furthermore, equity and consumer loans totaled \$6.9 million and represented 11.6% of the loan portfolio. The remaining portfolio consisted of mortgage loans secured by multifamily dwellings and construction loans. These loans totaled \$3.5 million and represented 5.9% of total loans.

Monson Savings Bank offers a variety of mortgage products, which include fixed rate, adjustable rate and fixed/adjusted rate mortgage loans. Mortgage products offer 30-year terms and Loan to Values (LTVs) of up to 95%. The bank became a Federal National Mortgage Association (FNMA) approved seller-servicer in May 1997. In addition, Monson Savings Bank offers a variety of commercial loan products including real estate mortgages and lines of credit.

Competition within the bank's assessment area includes a broad range of mortgage lenders. Based on 1997 market share analysis of all Home Mortgage Disclosure Act (HMDA) reporting lenders, Monson Savings Bank held a 6.7% (second position) market share for mortgages granted within its assessment area. The top ten lenders within the market held a combined market share of 48.2%. These top lenders and their market share (in descending order) are; (1) Country Bank for Savings (12.0%), (2) Monson Savings Bank (6.7%), (3) Springfield Institution for Savings (5.8%), (4) Countrywide Home Loans, Inc (4.7%), (5) Norwest Mortgage, Inc (4.6%), (6) Norwest Funding, Inc (3.6%), (7) Fleet National Bank (2.8%), (8) PHH Mortgage Services (2.8%), (9) United Co-operative Bank (2.7%), and (10) Eastern Mortgage Corporation (2.5%). Given its asset size and lending capacity, Monson Saving Bank has been successful in meeting community credit needs.

The Federal Deposit Insurance Corporation (FDIC) performed the bank's most recent Community Reinvestment Act (CRA) evaluation on November 24, 1997. This evaluation resulted in a "Satisfactory" rating. The Division of Banks previously evaluated the bank's CRA performance on January 6, 1997. This evaluation also resulted in a "Satisfactory" rating.

### **Description of Assessment Area**

The Community Reinvestment Act (CRA) requires a financial institution to define one or more assessment area(s) within which the bank concentrates its lending efforts. The Division evaluates the institution's CRA performance based on the bank's defined assessment area. The bank's assessment area(s) are expected to consist of one or more political subdivisions, such as counties, cities or towns.

Monson Savings Bank defines its assessment area to include seven municipalities located within Hampden County encompassing eight census tracts. The following towns comprise the delineated assessment area: Monson (7,776 residents); Palmer (population of 12,054); Wilbraham (12,635 residents); Town of Hampden (population of 4,709) and the towns of Brimfield (3,001 residents), Holland (2,185 residents) and Wales (population of 1,566). The assessment area's total population numbers 43,926 people. The three largest towns of Monson, Palmer and Wilbraham represent 73.9% of this total population. The towns of Monson, Palmer, Hampden and Wilbraham are situated within the Springfield MA Metropolitan Statistical Area (MSA). The towns of Holland, Brimfield and Wales share a census tract. Holland is situated within the Worcester MA-CT MSA. Brimfield and Wales are Non-MSA municipalities.

Census tracts are defined as either low, moderate, middle, or upper income based on median Family Household Income (FHI) within the census tract and its comparative level to

the area median FHI for the Metropolitan Statistical Area (MSA) or Non-MSA area in which the tract is located. There are no low and moderate income census tracts within the bank's assessment area. Based on 1990 U.S. Census data, the following table outlines assessment area towns by census tract income levels and provides other demographic information.

Town	Census Tract No.	Median Family Income	% Median MSA Income	Income Level	Family HHs*	Total HHs	% LMI * Households
Hampden	8135	50,782	133.3	Upper	1,339	1,636	19.5
Monson	8137	39,619	104.0	Middle	2,004	2,633	34.1
Palmer	8101	37,715	99.0	Middle	1,475	2,290	42.9
	8102	36,305	95.3	Middle	869	1,089	32.8
	8103	35,086	92.1	Middle	1,002	1,368	35.2
Wilbraham	8136.01	49,753	130.6	Upper	1,963	2,496	28.0
	8136.02	61,334	161.0	Upper	1,767	2,025	15.1
Brimfield, Holland & Wales	8138	36,838	96.7	Middle	1,891	2,447	34.5
<b>TOTAL</b>					<b>12,310</b>	<b>15,984</b>	<b>30.6</b>

\* HHs (Households) and LMI (Low and Moderate Income)

The median FHIs for the five middle income geographies (census tracts) ranged from \$35,086/92.1% of the median area FHI to \$39,619/104.0% of the median area income. Median Family Household Income (FHI) for the three upper income geographies ranged from \$49,753/130.6% of the area median to \$61,334/161.0% of area median FHI.

In addition, the above table provides data on the dispersion of family and total households (includes family and non-family households) within the census tracts. Families residing within the five middle-income census tracts, represent 58.8% of the total family households in the assessment area. Families residing within the three upper income geographies, represent 41.2% of total family households.

The percentage of low and moderate-income (LMI) households is also included. Of total family households residing within the middle income census tracts, 37.5% are of low and moderate-income. Of total family households residing within the upper income tracts, 21.5% are of low and moderate-income. Households with annual incomes below the poverty level represented 6.8% of all households within the middle income tracts and 4.7% of all households within the upper income census tracts.

Based on 1990 U.S. Census data, the table below details by town the number of housing units, the percentage of owner occupied 1-4 family dwellings and the median home values.

LOCATION	HOUSING UNITS	% OWNER – OCCUPIED	MEDIAN HOME VALUE
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Hampden	1,653	87.9	148,100
Monson	2,755	77.1	128,300
Palmer	5,061	63.4	113,900
Wilbraham	4,631	88.5	177,700
Brimfield	1,245	86.8	124,200
Holland	1,242	88.4	114,600
Wales	732	78.4	109,300
<b>TOTAL</b>	<b>17,319</b>		

As shown, the Town of Palmer has the lowest percent (63.4%) of owner occupied housing units, followed by the Town of Monson with a 77.1% of owner occupied units. Owner occupancy levels often reflect the composition or type of housing units located in a municipality. In Palmer, single family units comprise only 54.1% of the total housing units, while 2-4 family dwellings comprise 28.0% of total housing units. Furthermore, in Monson, single family units represent 76.5% of all housing units and 2-4 family dwellings represent 13.9% of the total housing units. In 1994, the median sales price of a home (based on Bankers and Tradesman data) in Monson and Palmer were \$94,000 and \$90,157, respectively.

The Town of Monson is bordered by; Palmer on the north, Brimfield and Wales on the east, Wilbraham and Hampden on the west and Stafford, Connecticut on the south. The town is situated 17 miles east of Springfield and 77 miles southwest of Boston. It lies in the Chicopee River Valley bordered on the east and west by steep rocky hills. Historically, the textile and granite industries flourished in Monson. Today, the largest employers are; Zero Corporation, Thermotech, Massachusetts Electric Co, Monson Development Center and the Town of Monson and its school department.

The Town of Palmer is comprised of four separate villages known as Depot Village, Thorndike, Bondsville and Three Rivers. Bondsville is the site of much of Palmer's industry. Manufacturing continues to be an important employer within the town, yet employment levels within this industry have declined in recent years. Today, Palmer serves as rail freight interchange in what is known as the intermodal network. This network combines long haul rail transportation with door to door delivery by highway. The town's largest employees include Wing Memorial Hospital, Cascades Diamond, Inc and the Town of Palmer and its school department.

## **PERFORMANCE CRITERIA**

### **1. LOAN TO DEPOSIT ANALYSIS**

The first criterion evaluated is the bank's net loan to deposit ratio. Monson Savings Bank's average net loan to total deposit ratio is considered reasonable and to meet standards for satisfactory performance. An analysis of bank's net loans to deposits was conducted, incorporating eight quarters of net loan to deposit figures taken from the bank's FDIC Call Reports of Condition. The periods covered included December 1996 to September 1998.

The average net loan to deposit ratio for the period was 76.3%. The net loan to deposit ratios ranged from the high point of 80.1% at March 31, 1997 to the low point of 71.7% at September 30, 1998. The decline in the ratio of loans to deposits can be attributed in part to deposit growth of 10.8% outpacing loan growth of only 1.1%. However, since becoming an approved Federal National Mortgage Association (FNMA) lender in May 1997, the bank has sold \$8.5 million in fixed rate mortgages to FNMA. If these loans were included in the above analysis, the bank's loan growth would have stood at 15.9% exceeding deposit growth.

The bank's mortgage originations have increased significantly over the prior examination levels. In 1997 and 1998, the bank granted 376 mortgage loans totaling \$36.1 million. In 1995 and 1996 combined, the bank originated 171 mortgage loans totaling \$14.1 million.

The following table provides loan to deposit ratios for community banks that granted mortgage loans in 1997 within the assessment area. These ratios are taken from FDIC Call Report figures as of September 30, 1998. These financial institutions range in net loan size from \$440.1 million to \$31.1 million.

<b>COMPARATIVE LOAN TO DEPOSIT RATIOS</b>	
Country Bank for Savings	98.1%
United Co-operative Bank	89.4%
Spencer Savings Bank	84.6%
Southbridge Savings Bank	78.4%
Monson Savings Bank	71.7%
Ware Co-operative Bank	74.8%

In conclusion, the average net loan to deposit ratio of 76.3% is reasonable and meets the standards for a satisfactory rating given the bank's capacity to lend and the credit needs of its assessment area.

## 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA (S)

The second performance criterion is based on Monson Savings Bank's record of lending within its assessment area. The bank's lending activity within its assessment area meets standards for satisfactory performance. A review of the institution's Home Mortgage Disclosure Act - Loan Application Register (HMDA- LAR) for 1997 and 1998 was conducted to determine the institution's performance for this criterion. In addition, small business loan originations for 1997 and 1998 were also analyzed.

For the period reviewed, the bank originated 376 mortgage loans for a total of \$36.1 million. Of these loans, 277 loans totaling \$26.5 million were granted inside the assessment area. The lending activity inside the assessment area represented 73.7% (by number) and 73.6% (by dollar amount) of the total mortgage loans originated.

The following two tables detail first by number of loans and second by dollar amount of loans, the bank's lending to the municipalities inside its assessment area. The bank's lending activity outside its assessment area is shown in aggregate.

### **MORTGAGE LOANS BY NUMBER OF ORIGINATIONS\***

	<b>1997</b>		<b>1998</b>		<b>TOTALS</b>	
<b>LOCATION</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Monson	50	44.3	98	37.3	148	39.4
Brimfield, Wales and Holland	21	18.6	31	11.8	52	13.8
Palmer	10	8.9	28	10.6	38	10.1
Hampden	3	2.6	17	6.5	20	5.3
Wilbraham	5	4.4	14	5.3	19	5.1
INSIDE ASSESSMENT AREA	89	78.8	188	71.5	277	73.7
OUTSIDE ASSESSMENT AREA	24	21.2	75	28.5	99	26.3
<b>TOTALS</b>	<b>113</b>	<b>100.0</b>	<b>263</b>	<b>100.0</b>	<b>376</b>	<b>100.0</b>

**Table 2a-1 \*Source:** Home Mortgage Disclosure Act – Loan Application Register (HMDA-LAR) for 1997 and 1998.

### **MORTGAGE LOANS BY DOLLAR AMOUNT OF ORIGINATIONS \***



	1997		1998		TOTALS	
LOCATION	\$(000)	%	\$(000)	%	\$(000)	%
Monson	4,455	45.3	9,469	36.1	13,924	38.6
Brimfield, Wales and Holland	1,607	16.4	2,815	10.7	4,422	12.3
Wilbraham	723	7.4	2,208	8.4	2,931	8.1
Palmer	565	5.7	2,324	8.9	2,889	8.0
Hampden	296	3.0	2,079	7.9	2,375	6.6
INSIDE ASSESSMENT AREA	7,646	77.8	18,895	72.0	26,541	73.6
OUTSIDE ASSESSMENT AREA	2,185	22.2	7,357	28.0	9,542	26.4
<b>TOTALS</b>	<b>9,831</b>	<b>100.0</b>	<b>26,252</b>	<b>100.0</b>	<b>36,083</b>	<b>100.</b>

**Table 2a-2 \*Source:** Home Mortgage Disclosure Act – Loan Application Register (HMDA-LAR) for 1997 and 1998.

As shown in the preceding tables, mortgage loan originations in the Town of Monson equaled 148 loans for \$13.9 million and represented 53.4% (by number) and 52.5% (by dollars) of all the mortgage loans granted within the assessment area.

In addition to residential loans, a review of small business loans was also conducted to determine the penetration of business loans within the assessment area. The following table provides combined data for 1997 and 1998 by number of loans and dollar amounts.

Small Business Loans Inside and Outside Assessment Area for Calendar Year 1997 and 1998				
Location	#	%	\$(000s)	%
Monson	90	51.7	4,186	40.2
Palmer	29	16.7	1,868	17.9
Brimfield, Wales & Holland	17	9.8	1,790	17.2
Wilbraham	10	5.7	280	2.7
Hampden	7	4.0	494	4.7
Inside Assessment Area	153	87.9	8,618	82.7
Outside Assessment Area	21	12.1	1,803	17.3
<b>TOTALS</b>	<b>174</b>	<b>100.0</b>	<b>10,421</b>	<b>100.0</b>

**Table 2a-3 \*Source:** Bank's internal reports on commercial loan originations for 1997 and 1998.

As indicated in the preceding table, for the period reviewed small business loan originations equaled 174 loans totaling \$10.4 million. Of these, 153 loans totaling \$8.6

million were originated inside the assessment area and represents 87.9% (by number) and 82.7% (by dollar) of the total small business loans originated. Small business lending inside the assessment area represents a high percentage of the total small business loans granted.

Small business lending activity was greatest within the Town of Monson. There were 90 small business loans totaling \$4.2 million granted to businesses located in Monson. These loans represented 58.8% (by number) and 48.6% (by dollar) of all small business loans granted within the assessment area.

In summary, a reasonable majority of residential mortgage loans were granted within the assessment area with 73.7% (by number) and 73.6% (by dollar) of the total mortgages granted. Furthermore, the bank granted 87.9% by number and 82.7% by dollar of its small business loans inside the assessment area. Given the overall level of lending activity within the assessment area, the bank's lending for this criterion meets the standards for satisfactory performance.

### **3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS AND BUSINESSES OF DIFFERENT SIZES**

The third performance criterion evaluates the extent to which the institution lends to borrowers of different income levels and businesses of different sizes within its assessment area. The bank's performance for this criterion was found to be more than reasonable and to exceed standards for a satisfactory performance. The distribution of the bank's mortgage originations were reviewed by borrower income based on HMDA-LAR information. Borrower income levels were compared to the median Family Household Income (FHI) for the MSA or area in which the property is located to determine the borrowers income levels. By definition, borrowers qualify as low income (below 50% of area median FHI), moderate-income (between 50% and 79% of area median FHI), middle-income (between 80 and 119% of area median FHI) and upper-income (120% or more of area median FHI). The Springfield, MA MSA median Family Household Incomes for 1997 and 1998 was \$45,500 and for the Non-MSA municipalities was \$44,900. The Worcester, MA-CT MSA median FHI was \$51,000 for 1997 and 1998.

The table below depicts the bank's distribution of residential mortgage loans that were granted within the assessment area, by borrower income levels.

<b>MORTGAGE LOAN ORIGINATIONS BY BORROWER INCOME LEVELS (NUMBER)</b>			
<b>BORROWER INCOME</b>	<b>1997</b>	<b>1998</b>	<b>TOTAL</b>

LEVELS						
	#	%	#	%	#	%
Low	9	10.1	9	4.8	18	6.5
Moderate	14	15.7	30	16.0	44	15.9
Middle	32	36.0	56	29.8	88	31.8
Upper	34	38.2	93	49.4	127	45.8
<b>TOTAL</b>	<b>89</b>	<b>100.0</b>	<b>188</b>	<b>100.0</b>	<b>277</b>	<b>100.0</b>

**Table 3a** \* Source: HMDA-LAR for 1997 and 1998.

In 1997 and 1998 combined, the bank originated 18 loans to low-income borrowers and 44 loans to moderate-income borrowers representing 6.5% and 15.9% respectively of the total mortgage loans originated. In addition, the bank granted 88 mortgage loans to middle-income borrowers and 127 loans to upper income borrowers representing 31.8% and 45.8%, respectively of the total mortgages granted. The above distribution appears to be well dispersed among the different income levels of borrowers.

The bank's 1997 residential mortgage originations were compared to 1997 collective originations reported for all other HMDA lenders within the assessment area. (The collective/aggregate data excludes Monson Savings Bank.) In addition, Table 3b-1 below provides a comparison to both aggregate lender performance and the distribution of family households by their income levels within the assessment area.

<b>COMPARISON OF 1997 HMDA REPORTABLE LENDING BY BORROWER'S INCOME LEVEL*</b>										
<b>INCOME LEVELS</b>	<b>BANK PERFORMANCE</b>				<b>AGGREGATE DATA</b>				<b>FAMILY HOUSEHOLDS</b>	
	#	%	\$(000)	%	#	%	\$(000)	%	#	%
<50	9	10.1	324	4.2	33	2.6	1,636	1.2	1,623	13.2
50 – 79	14	15.7	772	10.1	196	15.7	12,821	9.8	1,934	15.7
80 – 119	32	36.0	2,483	32.5	369	29.6	30,987	23.7	3,085	25.1
120+	34	38.2	4,067	53.2	543	43.6	65,138	49.7	5,668	46.0
NA	0	0.0	0	0.0	106	8.5	20,448	15.6	NA	NA
<b>TOTAL</b>	<b>89</b>	<b>100.0</b>	<b>7,646</b>	<b>100.0</b>	<b>1,247</b>	<b>100.0</b>	<b>131,030</b>	<b>100.0</b>	<b>12,310</b>	<b>100.0</b>

**Table 3b-1** \*Source: PCI Services, Inc., CRA Wiz Software.

Monson Savings Bank's loan distribution compares favorably in all income categories of borrowers to both the aggregate performance and to the family household demographics.

The bank's lending among low-income borrowers in particular well exceeded that of the collective lenders. Lending among moderate-income borrowers was similar to the aggregate's performance. The bank's lending to middle and upper income borrowers reflects a good distribution among these groups of borrowers and compares favorably to the aggregate lender performance. Likewise, the bank's lending demonstrated an excellent level of correspondence to the family household demographics for all income levels, particularly among low and moderate-income families.

An analysis of the bank's small business lending performance was also completed. For purposes herein, a small business loan is defined as "a loan with an original amount of \$1 million or less that are: secured by nonfarm nonresidential properties or; commercial and industrial loans to U.S. addressees." This definition is consistent with those found in the FDIC Call Report instructions.

The following table provides a distribution of the bank's small business loan originations by loan size.

<b>Small Business Loan Originations By Loan Size for Calendar Year 1997 and 1998</b>				
Loan Size	#	%	\$(000s)	%
<b>&lt; = \$100M</b>	118	77.1	3,281	38.1
<b>&gt; \$100M - \$250M</b>	33	21.6	4,721	54.8
<b>&gt; \$250M</b>	2	1.3	616	7.1
<b>TOTALS</b>	<b>153</b>	<b>100.0</b>	<b>8,618</b>	<b>100.0</b>

**Table 3c-1** Source: Bank's internal reports on commercial loan originations for 1997 and 1998.

During the period reviewed, Monson Savings Bank originated 153 loans totaling \$8.6 million, which meet the regulation's definition of a small business loan. Of these loans, 118 loans were for amounts of \$100,000 or less, representing 77.1% of the total small business loans originated. There were 33 loans for loan amounts greater than \$100,000 to \$250,000, representing 21.6% of the loans originated. Lastly, only 2 loans exceeded the loan amount of \$250,000. These loans represented only 1.3% of total small business loans originated.

The same small business loans by dollar volume are more evenly distributed. Of the \$8.6 million in loans originated, \$3.2 million or 38.1% were for loan amounts of \$100,000 or less, \$4.7 million or 54.8% were for amounts greater than \$100,000 to \$250,000 and \$0.6 million or 7.1% were for amounts exceeding \$250,000. The above small business loan distribution is more than reasonable based on both number and dollar volume of loans.

A small business is further defined as having gross annual revenues of \$1 million or less. Table 3c-2 depicts the bank's small business loans based on gross annual revenues of the business entities.

<b>Small Business Loan Originations By Revenues of the Business for 1997 and 1998</b>				
Gross Annual Revenues	#	%	\$(000s)	%
<b>&lt;=\$1,000,000</b>	144	94.1	7,189	83.4
<b>&gt;\$1,000,000</b>	9	5.9	1,429	16.6

<b>TOTALS</b>	<b>153</b>	<b>100.0</b>	<b>8,618</b>	<b>100.0</b>
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**Table 3c-2** Source: Bank's internal reports on commercial loan originations for 1997 and 1998.

The overwhelming majority (94.1% by number and 83.4% by dollar) of small business loans were granted to businesses with gross annual revenues of less than \$1 million. The above analysis indicates a more than reasonable distribution of lending among businesses of different sizes, particularly small business entities.

In conclusion, the bank's residential lending activity, when compared to the aggregate lenders performance and assessment area demographics, reflects a more than reasonable penetration among borrowers of different income levels, particularly low and moderate income borrowers. Furthermore, the bank's small business loans reflect a more than reasonable level of loans granted for amounts under \$100,000 and a substantial majority of small business provided to businesses with gross annual revenues under \$1 million. Given these factors, lending activity for this criterion exceeds the standards for satisfactory performance.

#### **4. GEOGRAPHIC DISTRIBUTION OF LOANS**

The fourth performance criterion evaluates the institution's record of addressing the credit needs of the assessment area based on the geographic distribution of loans. The bank's geographic distribution of lending was found to be reasonable and to meet standards for a satisfactory performance. Census tracts are defined as either low, moderate, middle, or upper income. The same comparative income levels that applied to borrower's income level also apply to census tracts. However, census tract income levels are based on 1990 U.S. census data. The bank's mortgage loans and small business loans were analyzed by the census tract income levels in which the property/business is located.

The bank's assessment area is comprised of eight census tracts/geographies. The towns of Monson, Palmer, Brimfield, Wales and Holland comprise the five middle income geographies, while the towns of Hampden and Wilbraham comprise the three upper income geographies. Palmer contains three of the five middle income tracts, while Wilbraham contains two of the three upper income census tracts. Brimfield, Wales and Holland share one middle income census tract. The bank's assessment area contains no low and moderate-income census tracts.

Table 4a below provides the geographic distribution of the bank's residential mortgage loans.

<b>MORTGAGE LOAN ORIGINATIONS BY CENSUS TRACT (NUMBER)</b>						
<b>CENSUS TRACT INCOME LEVEL</b>	<b>1997</b>		<b>1998</b>		<b>TOTAL</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Middle	81	91.0	157	83.5	238	85.9
Upper	8	9.0	31	16.5	39	14.1

<b>TOTAL</b>	<b>89</b>	<b>100.0</b>	<b>188</b>	<b>100.0</b>	<b>277</b>	<b>100.0</b>
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**Table 4a** Source: HMDA-LAR for 1997 and 1998.

There were 238 loans granted within the middle geographies, which represented 85.9% of the total residential loans granted. This overwhelming majority of loans granted in the middle income tracts reflects the bank's strong market presence within the Town of Monson, where its main office is located. Monson Savings Bank is the only financial institution with offices located in the towns of Monson and Hampden. The bank established its first branch office in Hampden in August, 1998.

Table 4b provides a comparison of the bank's 1997 geographic residential loan distribution to the collective geographic distribution for all other HMDA reporting lenders. In addition, the geographic distribution of owner occupied units is also provided for further comparison.

<b>COMPARISON OF 1997 RESIDENTIAL LENDING BY CENSUS TRACT INCOME LEVEL *</b>										
<b>TRACT LEVELS</b>	<b>BANK PERFORMANCE</b>				<b>AGGREGATE DATA</b>				<b>1-4 FAMILY OCCUPIED DWELLINGS</b>	
	<b>#</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	<b>#</b>	<b>%</b>
Middle	81	91.0	6,627	86.7	672	53.9	56,450	43.1	7,221	57.2
Upper	8	9.0	1,019	13.3	575	46.1	74,580	56.9	5,412	42.8
<b>TOTAL</b>	<b>89</b>	<b>100.0</b>	<b>7,646</b>	<b>100.0</b>	<b>1,247</b>	<b>100.0</b>	<b>131,030</b>	<b>100.0</b>	<b>12,630</b>	<b>100.0</b>

**Table 4b** \*Source: PCI Services, Inc., CRA Wiz Software.

The above comparative data further demonstrates the overwhelmingly strong market penetration within the middle-income census tracts, which Monson Savings Bank enjoys. The aggregate lenders' geographic lending distribution corresponds closely with the assessment area housing demographics, while the bank's own distribution exceeds both the aggregate lender performance and the assessment area housing demographics. Even with a strong middle-income tract penetration, Monson Savings Bank's performance for this criterion is considered to be reasonable due to the absence of low and moderate-income geographies where residential lending is more difficult.

The bank's small business loan originations were also analyzed by census tract location. Table 4c below provides the geographic distribution for the small business loan originations.

<b>Small Business Loan Originations By Census Tract for Calendar Year 1997 and 1998</b>				
<b>Census Tract Level</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Middle	136	88.9	7,844	91.0
Upper	17	11.1	774	9.0
<b>TOTAL</b>	<b>153</b>	<b>100.0</b>	<b>8,618</b>	<b>100.0</b>

The bank's strong lending in the middle income tracts is evident in the above distribution.

Of the 136 loans within the middle income tracts, 90 loans were granted within Monson, 29 loans within Palmer and 17 loans in the towns of Brimfield, Wales and Holland. Given the bank's market area and demographics, the geographic lending distribution for small business is reasonable.

In summary, the bank's geographic distribution of mortgage loans is reasonable given the aggregate lenders' performance and the assessment area housing demographics. Likewise, the bank's geographic distribution of small business loans well reflects lending activity in the middle income geographies. Overall, Monson Savings Bank's geographic lending distribution meets the standards for a satisfactory performance.

## **5. REVIEW OF COMPLAINTS/ FAIR LENDING POLICIES AND PRACTICES**

### **Review of Complaints**

For the period under review, Monson Savings Bank has not received complaints from any residents within its assessment area regarding its CRA performance.

### **Fair Lending**

Monson Savings Bank maintains a Fair Lending Policy, incorporated as part of its Lending Policy. The Fair Lending Policy ascribes responsibility of monitoring all of the bank's loan policies and procedures to the bank's Board of Investment, which acts as the Credit Committee. Monson Savings Bank's Board of Investment is charged with ensuring that the bank's loan policies and procedures contain no provisions that could be construed as discriminatory in nature. The Fair Lending Policy further charges the bank's compliance officer with the responsibility of the training and monitoring of bank loan personnel to ensure that all lending activities are in compliance with the Equal Credit Opportunity Act. The policy also contains an Equal Opportunity for Borrowers statement that mirrors the Equal Credit Opportunity Act.

Monson Savings Bank maintains a Fair Credit Reporting Policy that was last amended by the Board of Trustees on August 28, 1997. This policy was established to ensure that both the Lending Department and the Retail Banking Department of the bank comply with the disclosure provisions of the Fair Credit Reporting Act and the amendments thereto contained in the Economic Growth and Regulatory Paperwork Reduction Act of 1996.

Detailed below is Monson Savings Bank's fair lending performance as it relates to the guidelines established by the Division of Banks Regulatory Bulletin 2.3-101 (formally Administrative Bulletin 5-10). Such performance is considered to be satisfactory.

### **STAFF TRAINING**

Training is an ongoing function, with the major purpose being to ensure all employees, officers, and board members know the requirements applicable to their responsibilities.

Training is conducted during the orientation process for new employees and individuals attaining new responsibilities. Additional training is implemented in response to statutory requirements, changes, or amendments in the regulations or if non-compliance with a requirement is discovered.

On February 12, 1998, Monson Savings Bank's Loan Processor attended a HMDA Reporting Seminar sponsored by the Massachusetts Mortgage Bankers Association and the Community Bank League of New England. The topics included in the seminar were the revised Regulation C, Fair Lending, and common inquiries and reporting mistakes.

Monson Savings Bank is a participating member of the Bank Compliance Association of Western Massachusetts (BCAWM). On March 26, 1998, BCAWM offered a Fair Lending and Fair Housing Training Seminar. Four individuals from Monson Savings Bank attended this seminar. The seminar was aimed at bankers, and focused on the four major fair lending laws: Fair Housing Act; Equal Credit Opportunity Act; Home Mortgage Disclosure Act; and the Community Reinvestment Act with an emphasis on the practical application of such laws. Contracted by the City of Northampton, the Housing Discrimination Project conducted the seminar. Information from this seminar was subsequently disseminated to other employees, officers, and trustees of the bank.

Monson Savings Bank's Assistant Vice President of Lending attended the Graduate School of Banking at Colorado as a third year student from July 19 through July 31, 1998.

On November 17, 1998, Monson Savings Bank's Loan Processor attended a seminar entitled Mortgage Lending Basics sponsored by the Massachusetts Bankers Association. Topics included: residential lending and the secondary market; fair lending regulations and loan interviewing techniques; loan processing steps; underwriting basics; and documentation analysis. This seminar was tailored to mortgage personnel with less than one year of lending experience, as well as branch managers and assistant branch managers, loan interviewers, mortgage processors, and servicing personnel that were seeking a broader perspective of the loan origination process.

## **STAFF COMPOSITION AND COMPENSATION**

As of January 31, 1999, Monson Savings Bank employed 31 full and 5 part time individuals, none of which are minorities. There is one employee who is fluent or knowledgeable in Spanish and Portuguese. Personnel responsible for loan originations are not compensated on a commission basis, and therefore are encouraged to make loans of all dollar amounts.

## **OUTREACH**

Monson Savings Bank's management and staff have met with a full range of individuals and groups representing civic, neighborhood, small business and community development groups. Meaningful and ongoing relationships are maintained with a variety of community organizations in order to determine the credit needs of the bank's assessment area, including low and moderate-income neighborhoods. These



organizations include but are not limited to the following: the Quaboag Valley Chamber of Commerce; the Springfield Chamber of Commerce; the Hampden Chamber of Commerce; the Greater Springfield Board of Realtors; and the Quaboag Valley Business Assistance Corporation.

## **CREDIT PRODUCTS AND UNDERWRITING STANDARDS**

Monson Savings Bank reviews its products on an ongoing basis to determine whether they are offering competitive products to meet the credit needs of its assessment area. Loan underwriting standards are reviewed and revised by the Board of Trustees as needed.

The bank offers a “Two Step” First Time Home Buyer Program. One product offers a 5/1 fixed to variable interest rate with one point while the other product offers the same fixed to variable interest rate with no points. However, the product that offers no points also carries a slightly higher interest rate.

Monson Savings Bank offers non-conforming mortgages. The bank considers a non-conforming mortgage as a loan that does not conform to Fannie Mae underwriting standards and/or the current loan standards established via the bank’s Lending Policy. A mortgage is considered to be a non-conforming loan if there is a question with the borrowers’ ability to repay the loan, or if there is a question regarding the borrowers’ previous credit history. The character of the borrower is more heavily relied upon with a non-conforming loan; consequently, the bank utilizes a separate rate sheet for this type of credit.

## **MARKETING**

Monson Savings Bank utilizes various advertising and promotional activities, particularly newspapers, to inform all segments of its assessment area about products and services offered. Newspapers include The Springfield Union News (local edition), the East Longmeadow Reminder, The Journal Register, and The Town Recorder. The bank also promotes its credit services by the use of brochures, lobby posters, direct mail flyers, and statement stuffers.

In February 1998, the bank held a meeting at a local restaurant for area builders and realtors in order to inform them of the products and services offered by the bank.

## **CREDIT EDUCATION**

Monson Savings Bank has not sponsored nor participated in any credit education seminars during the period under review. However, personnel responsible for loan originations attempt to educate every potential loan applicant on an individual basis, from understanding the products the bank offers, to walking a new homebuyer through the underwriting process step by step.

## COUNSELLING

Monson Savings Bank's Collector counsels borrowers in need of assistance on an individual basis. When appropriate, the borrower is given a Cost of Living List that itemizes cost of living expenses in great detail by the week, the month, and the year. In addition, customers in need of further credit assistance are referred to the Consumer Credit Counseling Service of Massachusetts, Inc.

## SECOND REVIEW PRACTICES

Currently, a second review on a denied loan is performed only at the request of the borrower.

## INTERNAL CONTROL PROCEDURES

HMDA data is first reviewed by the bank's Loan Coordinator, then by the bank's Assistant Treasurer, and finally by the bank's President on a monthly basis. This review incorporates not only a verification of correctness, but also monitoring for any perceived patterns. In addition, senior management and the Board of Trustees review HMDA data annually.

## MINORITY APPLICATION FLOW

The Division also reviewed the number of applications received from minority applicants. For calendar years 1997 and 1998, the bank received a total of 4 applications from various minority groups. This represents approximately 1.2% of all applications received. As of the 1990 census, the bank's assessment area population by racial composition was White, 98.1%; Native American, 0.2%; Asian, 0.6%; African American, 0.7%; Hispanic, 0.4% and Other, 0.0%.

Applications received from minority individuals are depicted in the table below. Also included within the table is the 1997 minority application flow aggregate data for all HMDA reportable lenders (exclusive of Monson Savings Bank).

MINORITY APPLICATION FLOW*								
RACE	AGGREGATE 1997 DATA		BANK 1997		BANK 1998		BANK TOTAL	
	#	%	#	%	#	%	#	%
<i>Native American</i>	5	0.3	0	0.0	1	0.5	1	0.3
<i>Asian</i>	4	0.2	0	0.0	0	0.0	0	0.0
<i>African American</i>	14	0.8	0	0.0	1	0.5	1	0.3

<i>Hispanic</i>	5	0.3	0	0.0	1	0.5	1	0.3
<i>Other</i>	17	1.0	1	1.0	0	0.0	1	0.3
<i>Joint Race</i>	0	0.0	0	0.0	0	0.0	0	0.0
<b>TOTAL MINORITY</b>	<b>45</b>	<b>2.6</b>	<b>1</b>	<b>1.0</b>	<b>3</b>	<b>1.5</b>	<b>4</b>	<b>1.2</b>
<i>White</i>	1,353	76.6	104	99.0	196	96.1	300	97.1
<i>NA</i>	367	20.8	0	0.0	5	2.4	5	1.7
<b>TOTAL</b>	<b>1,765</b>	<b>100.0</b>	<b>105</b>	<b>100.0</b>	<b>204</b>	<b>100.0</b>	<b>309</b>	<b>100.0</b>

\*Source: PCI Services, Inc., CRA Wiz Software.

It should be noted that applications categorized as NA are applications either taken by phone or received through the mail. The high level of NAs in the aggregate (20.8%) reflect the significant influence of the large regional/national mortgage companies within Monson Savings Bank's assessment area that accept HMDA reportable loan applications, as a significant number of their applications are received either by phone or by mail.

The aggregate data shows that applications from minorities represented 2.6 percent of total applications received, while the bank's application flow (in 1997) was below the aggregate at 1.0 percent. However, given the almost non-existent minority population within Monson Savings Bank's assessment area, the level of applications received by the bank from minorities appears reasonable.

# THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

## MONSON SAVINGS BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **JANUARY 29, 1999** has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
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A majority of the Board of Directors/Trustees

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_

# PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction, and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.